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Sarah Proudfoot
General Manager Retail Markets
Australian Energy Regulator

Submitted electronically to: AERinquiry@aer.gov.au

Dear Ms Proudfoot

Review of the Minimum Disconnection Amount Guideline

EnergyAustralia welcomes the opportunity to provide further information to the AER's review of the minimum disconnection amount. We are one of Australia's largest energy companies, with over 2.5 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia believes that all groups want to find a balance in not disconnecting customers too soon, but also avoiding customers' debts increasing to unmanageable levels. We anticipate that over time, the introduction of the Sustainable Payment Plans Framework should increase confidence in the industry and facilitate vulnerable customers engaging with their retailer rather than avoiding the issue. In the immediate term however, we acknowledge the importance of this customer protection and the imperative that it be set at an appropriate level, ideally that it remain at \$300.

Applicability of the previous decision to the current market

The AER states in their 2012 decision on the minimum disconnection amount that "*an amount as high as \$500 is more likely to lead to unmanageable debt levels for customers...*".¹ We note that average energy prices has increased by 17%² since 2012, while average weekly earnings have increased by 10%³ during this period so we fail to see the justification for a 60% (or greater) increase to the threshold as has been called for by some stakeholders.

We consider that the AER's 2012 statement about the significance of a \$500 debt still holds true, even accounting for any wage growth or indexation of welfare assistance which has

¹ AER approval of minimum amount owing for disconnection, r.116 of the National Energy Retail Rules

² ABS 6401.0 - Consumer Price Index, Australia Series A2328141J

³ 6302.0 - Average Weekly Earnings, Australia, May 2016 Table 1 Average Weekly Earnings Trends, Series ID A84990050R

occurred during this time. To impose such a substantial increase to the threshold now will contribute to consumers accruing debts that they may be unable to meet. While it may be intuitively attractive to regularly index the minimum disconnection amount in some way, this could create other difficulties. The current threshold of \$300 is a round number that has remained constant for many years, and is easy to remember and apply consistently. Any move to index or change the threshold amount should ensure that additional difficulties are minimised. Our preference is that the amount continues to be reviewed periodically by the AER to ensure that it is appropriate.

In their 2012 approval of the current minimum disconnection amount, the AER also noted *"that the proposed minimum disconnection amount of \$300 is higher than some current jurisdictional thresholds and notes concerns that customers may find it difficult to repay this level of arrears."*⁴ We note that disconnections have increased in all jurisdictions where the minimum disconnection amount was set in place of jurisdictional arrangements.⁵ We would not suggest a correlation, as disconnections in Victoria have also increased until quite recently despite a lower minimum disconnection amount. However, as the initial threshold increase did little if anything to slow the rate of disconnections it appears that increasing the disconnection threshold will do little, if anything, to assist lowering disconnection levels.

Reducing disconnections

Around 15% percent of EnergyAustralia's disconnections for non-payment arise from debts between \$300 and \$500, and we are concerned that increasing the minimum disconnection amount will merely delay disconnection for some customers rather than preventing it. If a customer has accrued a debt, it is more likely to be manageable if they seek assistance from their retailer, a financial counsellor and/or emergency relief agencies sooner rather than later. We consider that this is the key to reducing the number of disconnections for non-payment.

Ideally, retailers and customers will establish contact to resolve the customer's payment difficulty as early as possible. The minimum disconnection amount is only one of a suite of requirements that retailers need to meet before disconnecting a customer for non-payment. EnergyAustralia will not disconnect customers if they engage with us and actively take steps to minimise their debt to the extent that their circumstances allow. Therefore, we don't believe that the minimum disconnection amount should be relied upon too heavily as there are other the other assistance measures that energy retailers are obliged to offer to customers prior to disconnection for non-payment.

The setting of a minimum disconnection amount

The current disconnection amount is in part influenced by the principle that a customer should not be disconnected for being one quarterly bill behind.⁶ We agree that disconnection should not occur in pursuit of relatively small amounts, regardless of whether or not it was accrued in a single billing period. The challenge associated with specifying a timeframe is that a customer who finds themselves one bill behind can easily slip two or three bills behind before they enter into dialogue with their retailer if there is no imminent threat of disconnection.

⁴ AER approval of minimum amount owing for disconnection, r.116 of the National Energy Retail Rules

⁵ Disconnections (residential) – time series. <https://www.aer.gov.au/taxonomy/term/1478> accessed 27 September 2016.

⁶ AER approval of minimum amount owing for disconnection, r.116 of the National Energy Retail Rules

We believe the key consideration in setting a minimum disconnection threshold is to find an amount which balances the need to ensure that customers are not disconnected in pursuit of frivolous debts and the level at which debt becomes unmanageable. This clearly differs for each customer and is difficult to establish. The main reasons why we consider the current minimum threshold of \$300 to be appropriate is that:

- this level of debt is not trivial for many customers; and
- the current threshold triggers customers to engage with retailers in the earlier stages of financial difficulty than they would if the threshold amount was higher.

While it may seem counterintuitive, an increase to the threshold could also lead to negative customer outcomes. That is, while an increase in the threshold amount may allow a customer to stay connected for an additional bill or two, it may also allow them to accrue greater debt and make reconnection more difficult to achieve.

Conclusion

The minimum disconnection amount would ultimately be unnecessary if consumers were confident that they would attain an equitable outcome by contacting their retailer for assistance. We recognise that it is up to industry to instill this confidence in customers and that until this occurs, the minimum disconnection amount remains a key consumer protection. We believe that the AER's 2012 decision that the minimum disconnection amount be set at \$300 remains appropriate.

If you require any further information with regard to this submission, please contact me on 8628 1242 or melinda.green@energyaustralia.com.au or Joe Kremzer on 8628 1731 or joe.kremzer@energyaustralia.com.au.

Yours sincerely,

Melinda Green

Industry Regulation Leader